

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2013-472-E - ORDER NO. 2014-138  
JANUARY 30, 2014

IN RE: Petition of Duke Energy Progress,	)	ORDER GRANTING
Incorporated for an Accounting Order for	)	PETITION FOR
Deferrals Associated with Sutton,	)	DEFERRALS AND
Fukushima, Cyber Security, Harris COLA	)	OTHER RELIEF
and Decommissioning	)	

This matter comes before the Public Service Commission of South Carolina (“Commission”) on the Petition of Duke Energy Progress, Inc. (“DEP” or “the Company”) for an accounting order for regulatory purposes for four deferrals. The first three deferrals are regulatory asset deferrals, and the fourth one is a requested allowance of an adjustment to certain contributions, along with a deferral to a regulatory liability account of certain credits. The four deferrals are: 1) the post-in-service incremental costs of the 620 MW Sutton combined cycle (“Sutton CC”) generation facility, 2) the incremental Operating & Maintenance (O & M) expenses that will be incurred as a result of complying with existing and future requirements promulgated by the Nuclear Regulatory Commission (“NRC”) in response to the events at the Fukushima Daiichi Nuclear Power Station in Japan and the incremental O & M expenses that will be incurred to comply with cybersecurity regulations mandated by the NRC , 3) certain costs incurred in connection with the development of proposed Units 2 and 3 of the Shearon Harris Nuclear Station, and 4) the allowance of an adjustment of the level of decommissioning contributions applicable to South Carolina retail operations, along with

the deferral in a regulatory liability account of certain decommissioning expense credits effective January 1, 2014.

The Company notes that granting this Petition will not involve a change to any of the Company's retail rates or prices at this time, or require any change in any Commission rule, regulation or policy. Further, the Company states that the issuance of the requested Order will not prejudice the right of any party to address these issues in a subsequent general rate case proceeding. (We would also note that issuance of the requested Order will not prevent this Commission from addressing these issues in such a case.) Further, DEP notes that granting the relief sought will postpone its filing of a rate increase request.

The costs that the Company is seeking to defer for Sutton CC are the related incremental cost of capital for generation and transmission plant, the incremental depreciation expense, and the incremental property taxes. The costs to be deferred are approximately \$7.9 to \$9.2 million as allocated to South Carolina retail operations.

This Commission has historically authorized deferral accounting for post-in-service costs of major generating plant additions from the date the units were placed in service to the date rates reflected the cost of the plants. The deferral request related to Sutton CC is very similar to previous deferrals authorized by this Commission. See e.g. Accounting Order on Wayne County Combined Cycle Plant, Order No. 2013-351 (May 30, 2013). The current request is similar to the one approved in that Order.

DEP seeks authorization from the Commission to defer as a regulatory asset the incremental O&M expenses that will be incurred as a result of complying with existing

and future requirements promulgated by the NRC in response to the events at the Fukushima Daiichi Nuclear Power Station in Japan in March 2011. Additionally, the Company similarly requests that the Commission permit it to defer as a regulatory asset incremental O&M expenses that will be incurred to comply with NRC regulations mandating cybersecurity protections for all NRC licensees. DEP is requesting that these deferrals be effective January 1, 2014. In 2014, incremental O&M for Fukushima related compliance is expected to be \$1.5 million as allocated to South Carolina retail operations. Further, DEP states that its increased O&M expense for cybersecurity in 2014 to be approximately \$1 million as allocated to South Carolina retail operations. Additional spending beyond 2014 will be required but, at this time, is not expected to exceed the 2014 estimate for any given year.

This Commission has historically authorized deferral accounting for significant O&M expenses incurred to comply with similar regulations. See, e.g. *Accounting Order*, Order No. 2012-780 (October 25, 2012), wherein this Commission approved South Carolina Electric & Gas Company's request to defer costs related to compliance with Fukushima-related regulation. See also *Order Approving Increase in Rates and Charges and Settlement Agreement*, Order No. 2013-661 (September 18, 2013), wherein the deferral and amortization of operations and maintenance expenses to comply with Fukushima and Cybersecurity-related regulation were approved by this Commission. We think the present deferral request mirrors those Orders.

With regard to Harris 2 and 3 expenses, DEP seeks authorization from the Commission to defer in a regulatory asset account certain costs incurred in connection

with the development of the Company's proposed Units 2 and 3 of the Shearon Harris Nuclear Station. The Company asserts that the Harris site will continue to be a part of the Company's long-term consideration as a site to expand its nuclear fleet, but DEP has decided that the continued development of Harris 2 and 3 within the Company's current resource planning period would not be in the best interest of customers. Therefore, DEP seeks to defer the South Carolina retail allocated portion of the unrecovered plant balance incurred from 2006 through May 2, 2013, for this project, which is approximately \$69 million in system development costs, including allowance for funds used during construction ("AFUDC"). The total development costs may be broken down as follows: approximately \$18.5 million for COLA preparation, approximately \$30 million for NRC review and licensing fees, approximately \$20 million for AFUDC, approximately \$110,000 for operational planning, and approximately \$62,000 for pre-construction and site preparation. The South Carolina retail allocated portion of the costs described above to total approximately \$7 million.

The Company states that allowance of the deferral would be in line with the Commission's previous Order allowing recovery of prudently incurred plant abandonment costs over multi-year amortization periods. See Order Approving Rates and Charges, Order No. 1983-92 (March 15, 1983), which allowed Duke Power to recover costs associated with the cancellation of Perkins Nuclear Plant and Cherokee Units 2 and 3, but not allowing unamortized amounts in rate base. We agree with the stated similarity in that case and the one at bar.

Lastly, the Company is requesting authorization from this Commission to adjust the level of decommissioning contributions applicable to South Carolina retail operations and defer in a regulatory liability account certain decommissioning expense credits effective January 1, 2014. The expense credits to be deferred are approximately \$3 million annually to South Carolina retail operations.

In 2011, based on the Company's 2009 Decommissioning Study, the Company requested, and the Commission approved, a by unit reallocation of nuclear decommissioning expense of \$4,651,455. A recent re-calculation has shown a total of \$1,642,685 in decommissioning expense, which is, for South Carolina a difference of \$3,008,770. In recognition of the fact that the estimated costs to decommission these units may change upon completion of the next cost study, the Company is seeking Commission approval to defer the \$3,008,770 expense difference in a regulatory liability account on the Company's books. The Company will propose in its next rate case to amortize the regulatory liability over a multi-year period. DEP states that approval of this deferral request will help to offset the amortization of certain regulatory assets in the Company's next rate case.

According to DEP, the annual net costs that it seeks to defer are material and could substantially harm the Company's earnings during the time deferral is not granted. To mitigate the impact of the requested deferral, the Company will propose in its next rate case to amortize the deferred assets and liabilities over a multi-year period. The Company also asserts that approval of this request will help mitigate the potential for deterioration in earnings, which will benefit both the Company and its customers in

helping assure investors' confidence in the Company and help assure access to needed capital on reasonable terms.

We have examined this matter and have determined that the requested deferrals and other relief requested in the Petition should be granted. Clearly, it is reasonable that degradation of the Company's earnings be prevented; in so much as it is related to a lack of deferral of the regulatory assets and liability cited in the Company's Petition. Granting the deferrals will not preclude this Commission or any party from addressing the reasonableness of the costs deferred in regulatory asset and liability accounts in the next general rate proceeding. We also note that the Office of Regulatory Staff does not object to the relief sought in the Petition.

We therefore grant the following relief. DEP is authorized:

- 1) To defer in a regulatory asset account certain post-in-service costs being incurred in connection with the Sutton CC from the date of its commercial operation in November 2013;
- 2) To defer in a regulatory asset account certain costs incurred on the Fukushima and cybersecurity response initiatives to comply with Nuclear Regulatory Commission requirements, effective January 1, 2014; and
- 3) To defer in a regulatory asset account certain costs incurred in connection with the development of the Company's proposed Units 2 and 3 of the Shearon Harris Nuclear Station.

Further, we authorize the Company's adjusted decommissioning contributions and approve the deferral of certain decommissioning expense credits in a regulatory liability account, effective January 1, 2014.

This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

  
G. O'Neal Hamilton, Chairman

ATTEST:

  
Nikiya Hall, Vice Chairman

(SEAL)